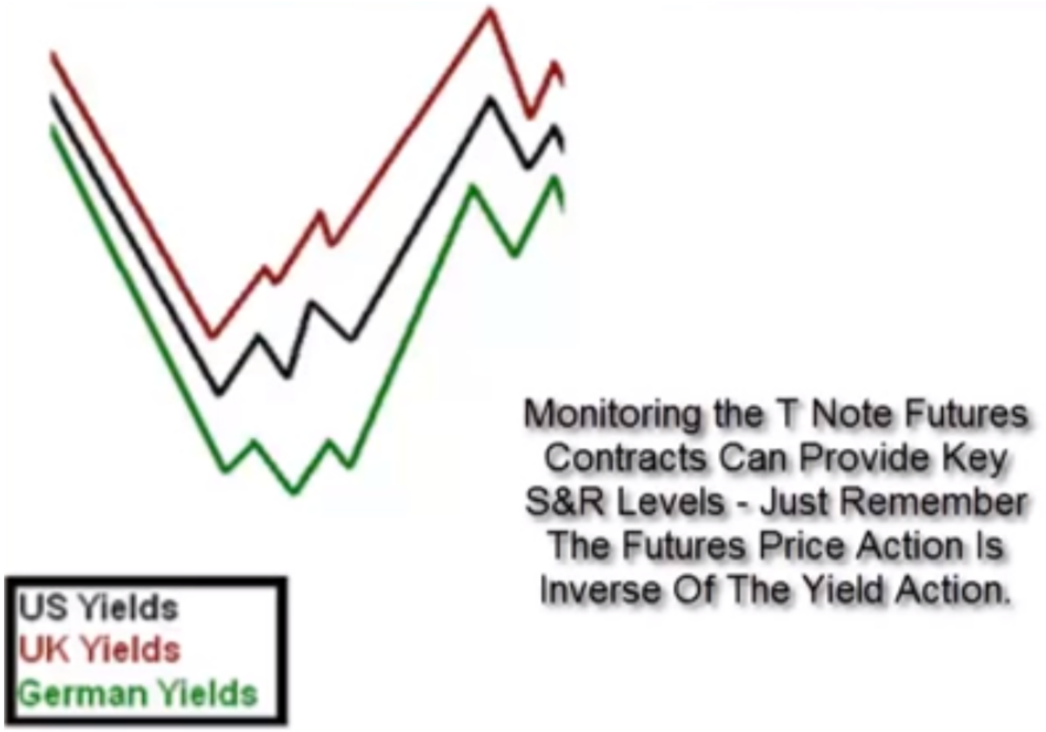
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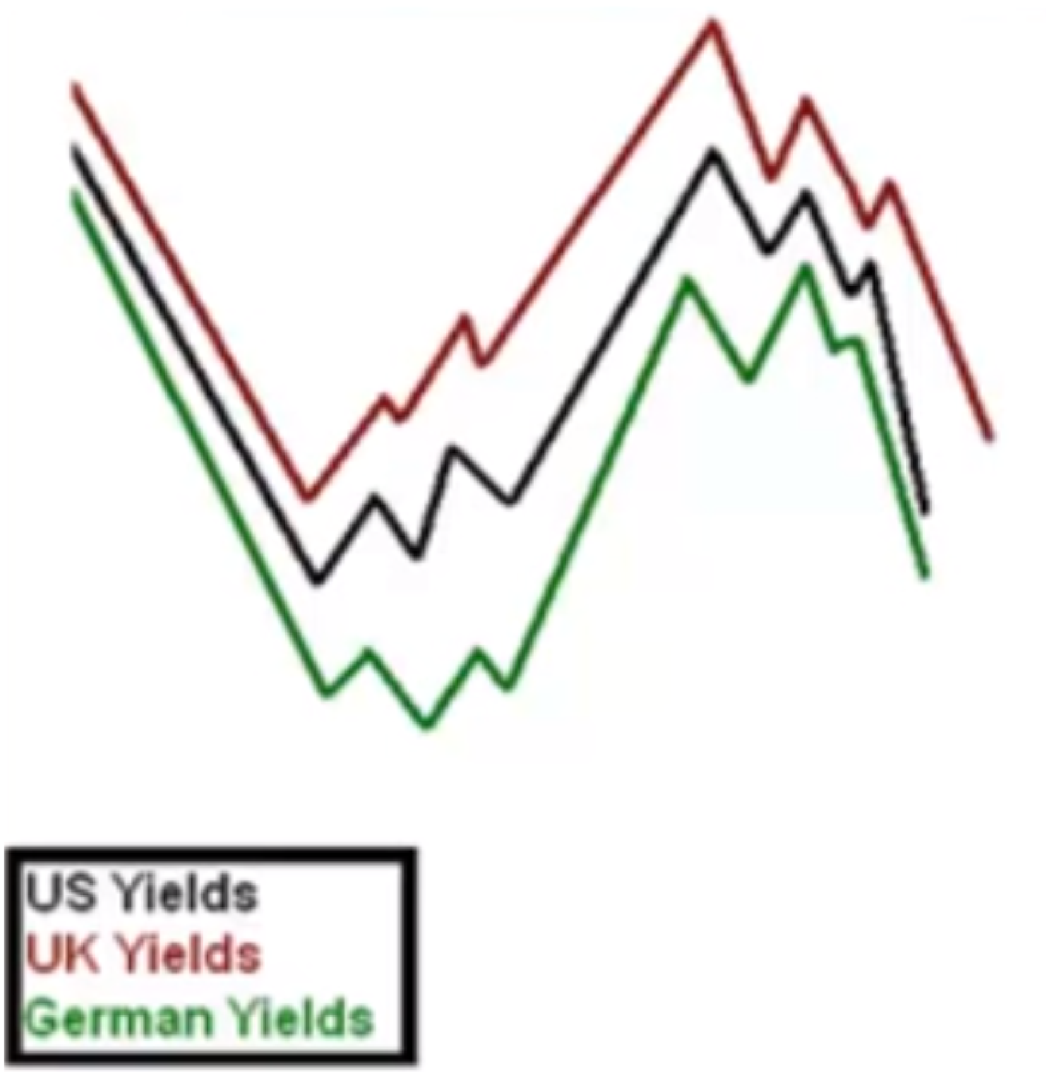
Saturday, August 24, 2013   11:37 PM

- Everything in Forex hinges upon the interest rate market. Monitor the 2, 5, 10, & 30 year bond yields.
- Generally the yields move in tandem.
- When the yields are dropping that is a risk off scenario. While risk is off we are not looking for buy signals, we are focusing on the sell side until we see a divergence in the yields. This is if we are trading EUR/USD and GBP/USD.
- The yield triad to use for EUR/USD and GBP/USD trading are the US yields, UK yields, & German yields.



- Roughly every 2 or 3 months (a few times a year), there is a shift in the interest rate market that is quarterly driven.
- At some point the yields will fail to make comparable lows. They need to confirm one another, if they don't confirm one another then something is taking place fundamentally. We don't need to know what the fundamental reason is.
- As yields are increasing it will **generally** be bullish for foreign currencies and bearish for the US Dollar.
- This trend will remain intact in the market until the yields reach some kind of resistance level (one yield or more than one yield will fail to make a higher high).





- Monitoring these yields is the **beginning** of top down analysis and assessing if we are in a risk on or risk off

environment.

- Once we have that assessment we can begin going from a macro view to a more micro view.
- If the USDX is weak it bodes well for foreign currencies, if it is bullish it bodes poorly for foreign currencies.

GENERAL MARKET

1. Interest Rates
2. US Dollar
3. Treasuries & Notes
4. Stock Indices - are they confirming each other?
5. CRB Index - if the CRB is bullish we are in a risk on environment, if it is bearish then we are in a risk off environment.
6. Gold & Oil - good barometers for risk on/risk off as well.

ANTICIPATORY STAGE

1. Seasonal Tendencies - you must understand where we are seasonally.
2. Yield SMT
3. USDX SMT
4. Correlated Pair SMT
5. Stock Index SMT
6. COT Net Positions
7. Open Interest & Premiums
8. Market Sentiment
9. Key S&R Levels

- You will spend more time in the anticipatory stage of analysis than any other stage.
- Try to be a specialist in trading, you can't be watching everything in every market, pick 1 or 2 markets that are correlated in some way and look at comparable highs & lows.
- Every week you want to be keeping a watchful eye on the COT net positions. Are they bullish or bearish? Are they lessening or increasing their shorts? This will be an indication on whether or not the market is bullish or bearish or if the current market moves are legit or not.
- Always watch the open interest and premiums between the nearby and next month out on your currencies. Look for indications that there is strong demand or waning demand (if there is a premium) for a particular market.
- Key support & resistance levels are the mack daddy of all technical analysis.

EXECUTION STAGE

1. Major Market Tone
2. Risk On/Risk Off
3. Buy or Sell Program
4. Macro S/R On Micro Charts
5. Market Structure
6. Market Flow
7. Time & Price
8. Trade Entry Orders

- Going into a new day, is the major market tone agreeing with your top down analysis? Are we still risk on or risk off? You do not want the tide moving against you.
- You can find this out by judging what the market is doing going into London, are we rejecting highs/rejecting lows (probably pricing in the daily high or daily low)?
- If we have a buy or sell program in the higher time frame based on directional premise (monthly, weekly, daily, H4) we want to be focusing on signals for that program.
- Before we execute we have to understand where we are at in market structure. If we are bullish we are looking for intermediate or long term lows on the left side of our chart. Look for short term to intermediate term lows to be keying off of to get in sync with the higher time frame macro view.
- Market structure is a huge role in that understanding.
- If bearish you want to see a long term or intermediate term high on the left side of your chart and where you are trading now you want to be shooting for intermediate term or short term highs to be getting short and in sync with the overall market structure that is bearish.
- We have to understand that simply because the market is **poised** to trade higher technically, yields may be moving up, risk on, everything is in place, support has been traded to that it makes trading a lot easier if we use market flow

on the higher time frame (daily, H4) to make sure that we have the tide in our favor.
- Bullish market structure, bullish market flow, with a bullish macro view and then moving to a simple time & price theory of expecting the low to form during London. You can expect the Asian range to be a key role in your order placement (Asian range high or less to be looking for your buy signals and vice versa if you are looking for sells/risk off scenario). Looking for Judas Swings.
- Unless you are trading breakouts you want to fade the market moves and make an entry in the opposite direction of your trade. ICT is fading the market about 90% of the time.

REACTIONARY STAGE

1. Failure To Move
2. Rejection at S/R Level
3. News Event
4. Global or National Event
5. Sick or Life Requirements

- If you are in a trade and anticipated a market move, but price is failing to move/goes stagnant, its time for you to kill the trade. Especially when you are moving into a specific time of day where volatility should be increasing, but isn't. It's just better to close the trade in this situation.
- Do not expect your success to be hinged upon one single event or one single trading day. Take a look at your biggest losing days or string of losing days, your mindset at the time was probably that you were expecting, hoping, & praying that this move is the winner. The one that puts you over the top and gets you back to even. **Do not** think like that.
- Demand the tools to place you in Optimal Trade Entry. If it doesn't provide you that and you don't see a very short to near term feedback in your trade (are you seeing the things that you're expecting in terms of volatility?), going into London Close or New York Open with stagnant price, why sit in that? That's your time to react, kill the trade. There is no risk now. If it runs off and you would have made money if you stayed in then big deal.. let it go.
- We act **quickly** when trying to **preserve** our **capital**. We act **slowly** when we are trying to **make money**.
- We only want to put our money to work when there is something highly probable in our favor to take advantage of. Why risk our capital on very low odd setups. There is no reason to. There are enough good setups happening in a week. There are enough good setups happening in a month. And over a year there are tons and tons of opportunities to make money. Don't sit in questionable trades.
- If you see strong rejection at a key S/R level counter the trade you are in, kill it. Why eat up open profits? Turn your paper profits into literal profits. You can always get back in.
- Your relationships in the real world should take precedence over the charts. You should enjoy trading, but you should enjoy your family and loved ones more.
- At the very least, tighten up your stop loss when life throws you curveballs.

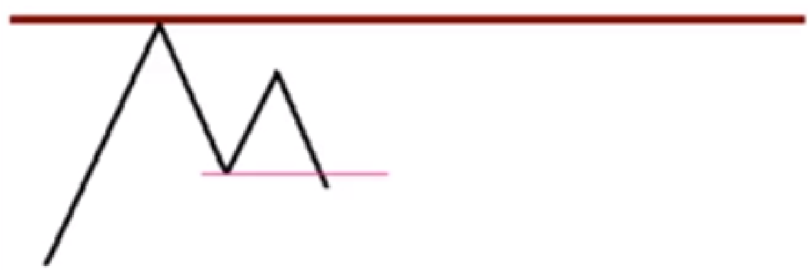
FRACTAL ANALYSIS IN PRICE ACTION

Fractal: A pattern that is repeated in infinite size up and down. Something that you see in one time frame, if you zoom in you will see it on other levels. This principle is in effect in price.

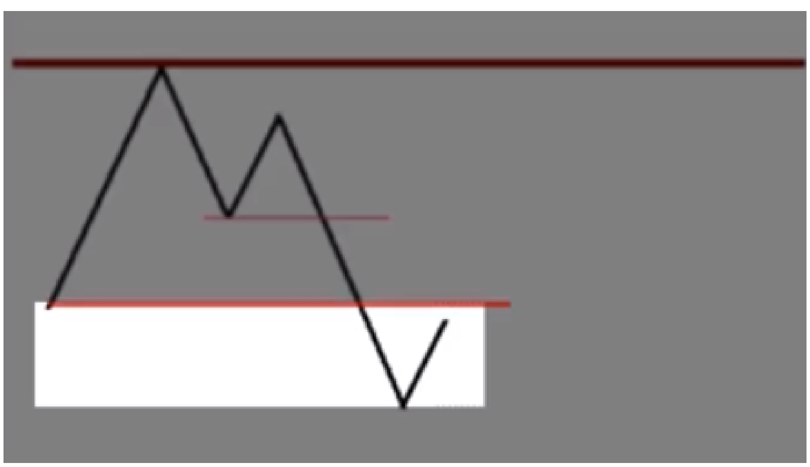
- OTE is an example of a fractal in the marketplace.
- There are many different kinds of fractals in terms of price action.
- At some point price will bounce off resistance and swing down and make a short term low. This gives a new reference point for short term support.

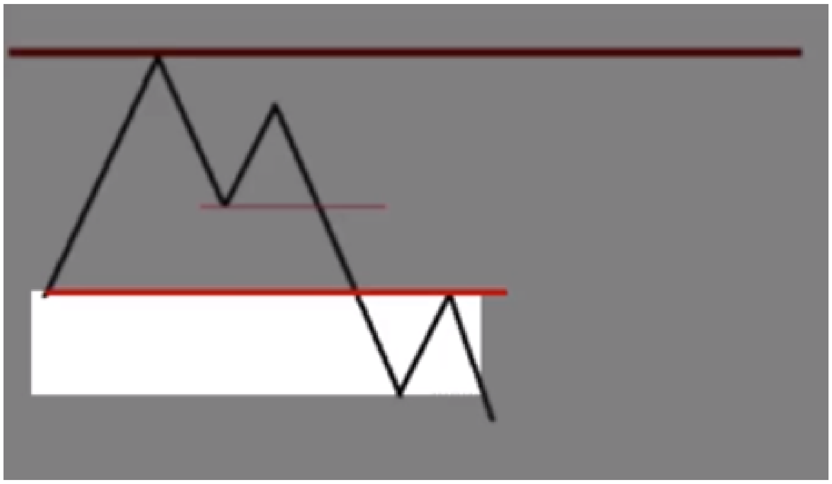


- At this key high time frame resistance level we expect sellers to be heavier in the marketplace than buyers.
- We anticipate price to break below the low demonstrated above.
- If price does break through that low then there is a shift in market structure and market flow.
- We have confirmed that there is bearish market flow and an early market structure reversal.
- We could reasonably expect this higher time frame OTE and then we can look for continued sell signals.

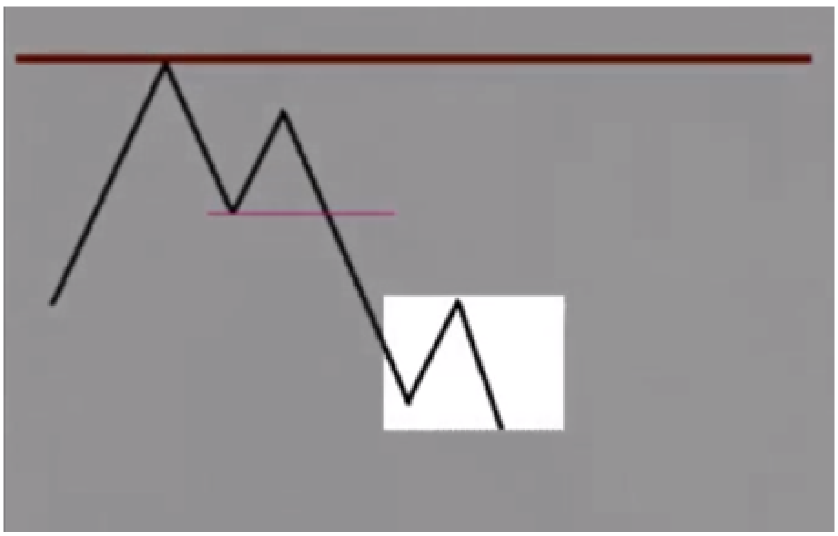


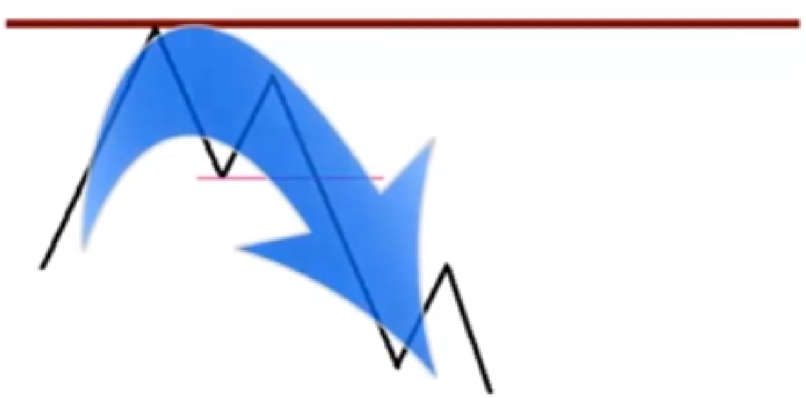
- The above pattern is a fractal. It is applicable in fractal analysis.
- Consolidation to trend. Trend to consolidation and back to trend.





- Highlighted below is the range turned into consolidation where we can start looking for smaller short term optimal trade entry tops.





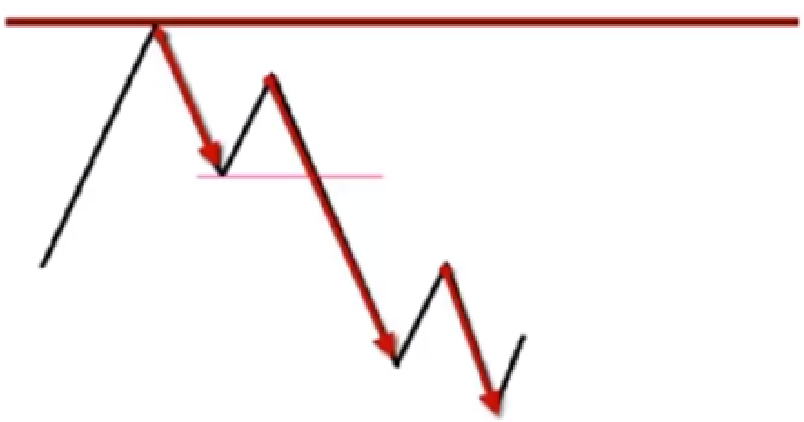
- As price broke down, we began to look for lower level (5 minute, 15 minute, 1 hour basis) optimal trade entries to get in sync with the bounce off a higher time frame resistance level in expectancy of lower prices.
- We are limiting our exposure to only sells in an established weak market. We have a bias going into our analysis. We are focused on only selling.
- Market flow is still bearish until we take out the swing high that is circled below:



- Before that swing high formed, market flow was still bearish until we took out the swing high that is circled below:



- We keep making lower lows and lower highs and we maintain a sell scenario in our trading looking for a shorter term fractal pattern of optimal trade entry tops.
- In each one of the swings below (say it's a daily chart), you will find OTE's in smaller time frame charts. This is what makes it fractal in nature.



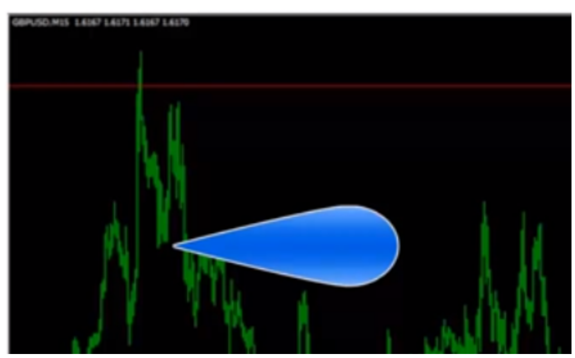
- Eventually price will move outside of the consolidation into a trending move again. Trending move to consolidation to trending move.
- The same pattern seen below will be seen on the lower time frames as well.
- By having this perspective in your analysis from the higher time frame and then moving down into the lower time

frame, it helps with your daily bias and it keeps you on the right side of the market (generally), unless there is some kind of major market reversal, but you should have a grip on this based on your macro analysis.

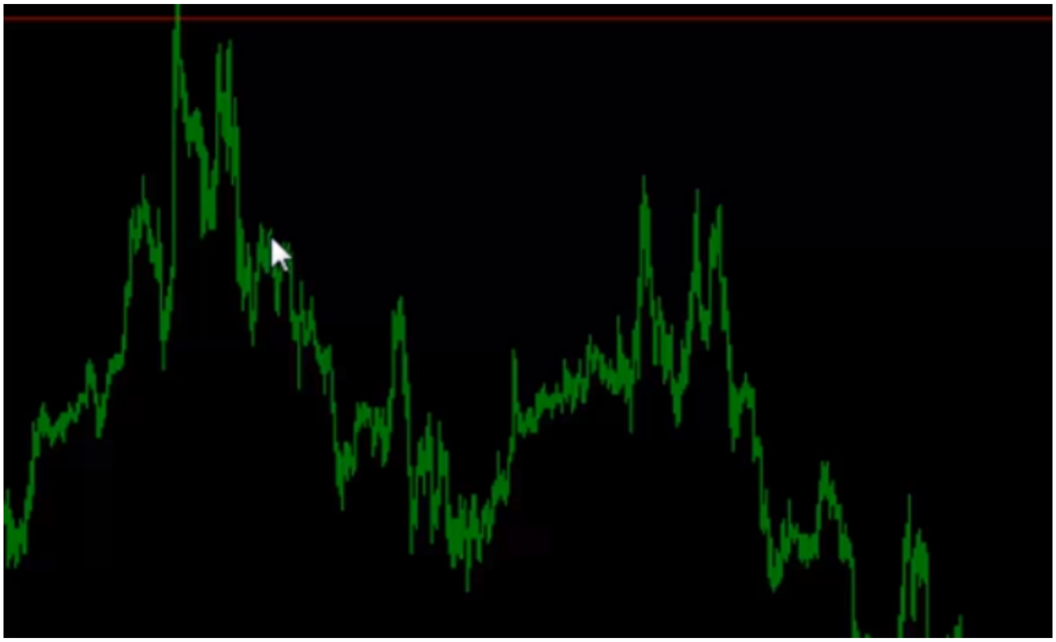


- Real examples below. The blue blurb is highlighting the low that would shift everything to bearish. This is a 15 minute chart. Start looking for OTE sell patterns once it is broken. It will be an established bearish market at that point. Everything you do from that point on should be looking for sells. Even scalps.





- After the shift there is a small little OTE sell signal next to the mouse pointer in the example below.
- There are several examples of OTE sells in the example below.



MARKET TURNING POINTS

- Regardless of what time frame you are looking at, if you are looking for a sell scenario, there are several opportunities to use price to get you into the move.
- Below is a turning point for a sell. Maybe a 5 minute chart for example. You zoom into the chart at a time in the day where you would expect the turn to take place (London for example).

